# **Credit Union Growth Task Force**

Summary Report August 18, 2006

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# **Executive Summary**

- Recent credit union growth just about any way it's measured -- has been fairly weak when viewed in a broad historical context.
- Credit unions will not be surprised to hear CUNA voice concern over this slow growth. In fact, they probably *expect* leadership from us on this issue. And they are likely to welcome any assistance that we and the state leagues can provide in helping to soften the effects of slow growth and/or in helping to reverse the slow growth trends.
- Growth issues vary widely by state. This fact may mean that some state leagues would be more likely to actively participate and promote growth initiatives.
- Some of the fast growth the movement enjoyed historically arose from one-time events making those growth rates difficult to sustain and nearly impossible to reproduce.
- Slow growth is not a new concern in the Credit Union System. The lessons learned from Moonshot seem to be 1) that a concerted, coordinated effort to restore growth can pay dividends; and 2) care should be used in quantifying goals – a variety of factors influence growth and many of those factors are difficult to predict and control. These factors can cause significant progress to look like failure.
- CUNA now offers a variety of programs designed to promote credit union membership, loan growth and savings growth. However, the organization does not identify or promote its products under a unified theme of membership growth. Project LEAP (Lending Excellence and Performance) represents the most recent and most comprehensive attempt to deal with growth, though its primary focus is earnings maintenance.
- The task force explored a variety of potential new initiatives and recommends additional survey research focused on: 1) state league activities in this area; 2) credit union best practices; and 3) regulatory/supervisory relief. A best practices clearinghouse also was seen as a helpful initial response.

## I. Credit Union Growth Trends

Recent credit union growth – just about any way it's measured -- has been fairly weak when viewed in a broad historical context. Of course, credit union growth rates can vary widely from year to year, but the following high-level trends are obvious:

- Annual average growth rates in credit union memberships have declined markedly since the 1980s. And while today's declining membership growth rates may be part of the natural order of growth, the current decline has easily been the longest running drop off in membership growth since 1980. We are now in the midst of a four-year slowdown that began in 2003. Moreover, memberships are now increasing a bit faster than the rate of population growth, while in the 1980s the growth in memberships was over three times higher than the growth rate in the population and in the 1990s the growth rate in memberships was over two times higher than the growth rate in the population. Somewhat surprisingly, these trends are appearing at a time when a record number of credit unions have adopted community charters.
- Credit union average savings growth since 2000 has been marginally higher than that
  experienced in the decade of the '90s. But savings growth has been on a declining
  trend since 2001 and the 2005 increase in credit union savings balances was just less
  than 4%. Additionally, credit union savings growth since 2000 has been nearly identical
  to the consumer savings growth in non-credit union depositories. In contrast, credit
  union savings growth was roughly double the growth experienced by other depositories
  during both the 1980s and 1990s.
- Credit union loan growth since 2000 was roughly equal to the increases logged in the 1990s, though a bit slower than those experienced in the 1980s. On the other hand, credit union loan growth since 2000 has been slower than the growth in non-credit union loans. This is a departure from the 1980s and 1990s when credit union loan growth outpaced the growth in household borrowing from other (non-credit union) sources.

Credit Union Historical Growth Rates								
Annual Averages Over Various Periods								
					Consumer & Mortgage			
	Individuals		Household Savings		Loans			
	Credit Union	U.S.	Credit	Non-CU	Credit	Other		
<u>Timeperiod</u>	<b>Memberships</b>	<b>Population</b>	<u>Unions</u>	<b>Depositories</b>	<u>Unions</u>	<b>Sources</b>		
1980s	3.4%	0.9%	12.5%	6.8%	11.2%	9.9%		
1990s	2.6%	1.2%	6.8%	3.4%	8.1%	6.9%		
2000 to June 2006	1.9%	1.0%	8.6%	8.1%	8.9%	10.9%		
Sources: CUNA, NCUA, Census Bureau, Federal Reserve.								

Credit unions will not be surprised to hear CUNA voice concern over this slow growth. In fact, they probably *expect* leadership from us on this issue and are likely to welcome any assistance that we and the state leagues can provide in helping to soften the effects of slow growth and/or in helping to reverse the slow growth trends.

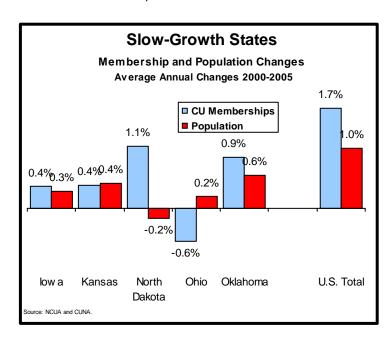
At the same time it is important to remember that not all credit unions see growth as a critical issue. Growth, for example, varies substantially by credit union size, with larger credit unions

generally growing faster than their smaller counterparts. For example, in the year ending March 2006, memberships declined (-1.6%) in the typical smaller credit union (i.e., those with \$5 million or less in assets), while memberships increased by 3.4% in the typical larger credit union (i.e., those \$100 million or more in total assets). Of course, the relatively fast growth among larger credit unions reflects faster "organic" growth but also reflects the fact that larger credit unions are more likely than the smaller institutions to have growth arising from merger activity.

While membership growth varies *between* credit union asset size groups, wide variation in membership growth rates also are evident *within* asset size groups. And the differences by size and within size groups are likewise apparent in loan and savings growth as well.

Growth issues vary widely by state. This fact may mean that some state leagues would be more likely to actively participate and promote growth initiatives. There are many reasons for the state-level variation in growth but the most significant factors are:

- As suggested above, states that have relatively small credit unions on average tend to reflect slower growth than states with larger credit unions. The average size credit union in Pennsylvania, for example, is \$36 million (about one-half the U.S. average) and annual growth in memberships in Pennsylvania has been below one-half of one percent since 2002 (i.e., roughly one-half the national rate of growth).
- Demographics play a role: Slow growth in credit union memberships is obvious in states with relatively slow population growth (most notably lowa, Kansas, North Dakota, Ohio, and Oklahoma).



- Geographic shifts in credit union headquarters can be a driver as well. The most glaring example of this appears in the District of Columbia where credit union headquarter moves to cheaper facilities outside of the beltway are at least partly responsible for four consecutive years of membership declines.
- Finally, unique one-time events such as mergers with credit unions headquartered out-ofstate (partly responsible for recent weak growth in Georgia) and conversions of credit unions

to mutual savings banks also can cause some states to reflect greater growth challenges. For instance, the conversion of two large Texas credit unions in 2005 was largely responsible for the state's (-4.2%) drop in memberships in the year. In total, the two converting institutions started 2005 with about 7% of the state's total memberships.

## II. Reasons for Weak Credit Union Growth

Our examination of the causes of weak growth also included a discussion of strong growth. We conclude that <u>some of the fast growth the movement enjoyed historically arose from one-time</u> <u>events making those growth rates difficult to sustain and nearly impossible to reproduce</u>. For example, the go-go membership growth rates of the 1980s were influenced by:

- Wide-ranging product and service deregulation including the removal of Regulation Q deposit rate ceilings.
- The relaxation of NCUA field of membership guidelines and the resulting explosion in select employee growth (SEG) field of membership expansions.
- The collapse of the savings and loan industry.

In a similar vein, relative high growth rates leading up to and following passage of H.R. 1151 may well have been spurred by all the national and local publicity the movement received about the Credit Union System.

Recent slow growth is rooted in a variety of sources. Some of the challenges are clearly cyclical. Growth rates in credit union savings balances vary based on changes in market interest rates, changes in the attractiveness of alternative investments, and flight-to-safety shocks such as the 9/11 terror attacks, while loan growth varies with changes in market interest rates, labor market strength and consumer sentiment.

On the membership front, we know that people join credit unions for a variety of reasons. A 1998 CUNA survey revealed that among new members the key reasons for joining were:

- 1. It was a benefit offered by the member's employer (20%)
- 2. The credit union was convenient (typically defined as location) (17%)
- 3. The credit union had high deposit interest rates/low loan interest rates (17%)
- 4. The member needed a loan (15%)
- 5. The credit union had low fees (10%)

The following trends, which roughly correspond to the reasons members joined credit unions in the past, may be working against current and future credit union membership growth prospects:

- 1. Today, fewer and fewer credit unions are employer-based so fewer people have access to credit unions as a benefit of employment.
- 2. As more credit unions switch from employer-based to community-based charters convenience becomes a larger issue. Convenience is typically defined as "location". And while the number of credit unions in the U.S. is about equal to the number of banking institutions, the total number of bank branches is roughly eight times larger than the number of credit union branches. The convenience factor also greatly favors banking institutions when ATMs are considered.
- 3. Credit union pricing continues to "beat" the pricing of traditional competitors by a wide margin. But the differences appear to be shrinking if only marginally. Recent pricing trends reflect more aggressive bank pricing practices than seen in the past. This may be a cyclical phenomenon but it is too early to draw that conclusion. Moreover the explosion of home equity lending and the recent multi-year mortgage refinance boom is important because mortgage pricing is determined in by the secondary market and

- the credit union rate advantage on these loan-types is substantially smaller than the advantage on auto and unsecured loans.
- 4. It is no secret that credit unions have seen a significant decline in the number of adult members in their prime borrowing years. The number of members between the ages of 25 and 44 years old has declined 17 percentage points (from 55% of members to 38%) between 1985 and 2006. Further, while overall memberships should increase by nearly 5 million by 2010, it is estimated that the number of members in this age category will decline by 2.5 million. Clearly, credit unions need to make a concerted effort in several key demographic groups: young adults, retiring Baby Boomers, and the underserved (Hispanics and other minority groups). Additionally, while many credit unions have converted to community charters, they have found it difficult to grow their membership base significantly. One-off membership growth resulting from indirect lending programs has helped boost auto lending but did not lead to any real increase in use of credit unions as primary financial institutions.
- 5. Credit unions are imposing more and higher fees as interest margin pressures mount. Some of those interest margin pressures are temporary, but some are permanent and arise from increasing competition. Moreover, consolidation means there are fewer, larger credit unions and these are more likely to charge fees than their smaller counterparts. These larger institutions also seem to be more likely to implement relationship pricing programs and to aggressively trim dormant or low-balance accounts.

Some of the other important trends include the following:

- Greater competitive pressures. From a macro level if one were to describe the financial services industry in organizational growth terminology, it is in the mature phase of its "life cycle". While there are fewer financial institutions today than even a decade ago, there are many more options for consumers from non-traditional providers. Non-traditional financial service providers have become part of the landscape, giving consumers many more options from a wider variety of service providers than ever before. Mergers and acquisitions within the financial institutions sector are creating bigger and more impersonal providers. And while credit unions have expanded their fields of membership, penetration rates have declined significantly. Additionally, there are increased credit union field of membership overlaps.
- Increased regulatory and supervisory pressures. The Patriot Act, Truth-in-Savings,
  Prompt Corrective Action, Bank Secrecy Act, constant call report changes, a growing list
  of policy requirements and a host of other legislative and regulatory rules and regulations
  have added to the complexity of running a credit union, potentially taking management
  focus and resources away from the issue of growing a credit union's membership base.
- Resource constraints and planning challenges. For many credit unions the challenge is surviving day-to-day, let alone planning for tomorrow's needs. The movement continues to lose about one credit union per day. Long-tenured boards of directors are often mired in "that's the way we've always done it" thinking, when a long-term strategic plan for growth is needed. At these credit unions the focus is on day-to-day survival rather than on renewal, re-visioning, reinvention, and regeneration. For many small credit unions, a core group of employees do all the day-to-day work, making it difficult to focus on continuous improvement, training, expansion, and growth.
- <u>Awareness issues</u>. CUNA's 2006-2007 Survey of Potential Members showed that nearly four of 10 eligible non-members were not familiar with credit unions. And while

consumers age 18 to 34 are the most likely to say they are eligible to join a credit union, they are the least likely to actually belong to a credit union and the least aware of what a credit union is. Additionally, a recent survey by CUNA's Hispanic Resource Center suggests half the nation's credit unions do not believe Hispanic outreach is important. Discussion at the recent CUNA Marketing Council focused on the need for a more relevant branding campaign.

Meanwhile, the gap seems to be widening between the need for high-tech, low-touch services for an increasingly sophisticated potential membership base and a growing need for basic, core services to serve the emerging new American immigrant market.

# III. Lessons of the Past

<u>Slow growth is not a new concern in the Credit Union System</u>. In 1991, growth in credit union memberships was just 1.1% - the first (and only) time in the last several decades that membership increases failed to keep pace with the growth of the U.S. population.

In response CUNA launched Credit Union Moonshot with the stated goals to reverse a downward trend in membership growth...increase member and staff diversity...and provide service to underserved populations.

CUNA launched Moonshot at its annual convention in 1992 and, soon thereafter, began to actively pursue its stated goals. Activities included:

- 1. State leagues named coordinators to work with CUNA on the project.
- 2. The slogan "Dare to Look Ahead" was adopted
- 3. A numerical goal of reaching 100 million memberships by 2000 was adopted (later changed to 80 million).
- 4. In 1993 CUNA held 10 "Philosophy is Good Business" regional seminars promoting the membership growth.
- 5. Numerous presentations at national, regional, and local forums were delivered in an effort to promote membership growth
- 6. A SEG expansion kit was developed (still available through CUNA's Center for Personal Finance)
- 7. A series of statement stuffers designed to educate consumers about credit union membership and differences from other financial service providers (also still available through CPF).

Membership growth rates were over two times higher than 1991 results in each of the four years Moonshot operated. Despite this apparent success, Moonshot was a short-lived program that faded after only four years -- a judge's injunction against select employee group (SEG) expansions knocked the program out of its orbit. The movement's focus shifted from growing members to restoring membership access that the courts had prohibited. Ultimately these efforts led to passage of the Credit Union Membership Access Act, H.R. 1151.

The lessons learned from Moonshot seem to be 1) that a concerted, coordinated effort to restore growth can pay dividends; and 2) care should be used in quantifying goals – a variety of factors influence growth and many of those factors are difficult to predict and control. These factors can cause significant progress to look like failure.

Membership growth is not a new issue to the Credit Union System, but it may well be an issue that needs focus lasting beyond a few conferences and speeches. Already several credit union leagues (Ohio, Georgia, and soon, Colorado) have explored membership growth initiatives.

### IV. Current State-Level Initiatives

The task force contacted the Georgia and Ohio leagues to obtain details of their responses to recent growth challenges. Briefly, we found:

- Georgia began thinking of growth after conducting a dues study. They are looking at funding a Member Growth Initiative with \$500,000 in 2007 and hope to get \$1-\$2 million after that. One key initiative is the 'Getting Ahead Association" helping to get people out from under bad credit, too many credit cards, payday lenders, etc. The league indicated that both large and small members want to grow, but they struggle especially in attracting young people. They are very interested in doing whatever they can to help us.
- Ohio recognizes a problem with member declines. Trends such as consolidation, concentration, margin squeeze, and member stagnation are causing concern. They view attracting prime borrowing members and youth as key. The league plans to reengage public awareness and cooperative advertising as an initial response, though have no "Buckeye Moonshot" yet. Paul Mercer indicated a desire for CUNA/AACUL to partner on this issue perhaps also looking for leadership from the National CU Roundtable.

Comments obtained through follow-up contacts with senior staff at the Georgia and Ohio leagues are incorporated in other areas of this summary report.

# V. Existing CUNA/CSS Products that Promote Growth

CUNA now offers a variety of programs designed to promote credit union membership, loan growth and savings growth. However, the organization does not identify or promote its products under a unified theme of membership growth. Project LEAP (Lending Excellence and Performance) represents the most recent and most comprehensive attempt to deal with growth, though its primary focus is earnings maintenance.

Launched as an educational initiative supported by CUNA Mutual and the AACUL, Project LEAP's stated purpose is to: "help credit unions succeed in a rising rate environment by coordinating national and state training, research, and publishing resources on strategies that strengthen credit union bottom lines." The Project LEAP description goes on to explain "the Project LEAP icon will serve as a unifying graphic that links CUNA and League products and programs addressing overall growth strategies, but particularly focusing on asset/liability issues, sales and service, and identifying and implementing successful strategies to build membership and grow consumer loan portfolios."

Additionally, CUNA Strategic Services offers a variety of business relationships designed to help credit unions reach out to new markets, including loyalty and rate intelligence services, member

financial counseling, predictive modeling, customer relationship management materials, and transaction service enhancements.

Efforts like CURIA and Regulatory Affairs contacts with NCUA also are key. Regulatory Affairs and Policy Analysis staff efforts help credit unions grow. For example, NCUA's recently-released Letter to Federal Credit Unions 06-FCU-04 ("Evaluation of Earnings") clearly reflects sentiments CUNA staff expressed in those efforts.

CUNA also offers a wide variety of schools, conferences, online (webinar) courses, and books for credit unions that focus on business development, sales, service, and SEG development. For members, CUNA offers promotional product tools that promote membership to young people, young adults, and adult members. Statement stuffers, a SEG development kit, and Hispanic outreach materials also are available. Finally, member and nonmember survey research products, the E-SCAN, and consultative services are promoted and are widely used.

In each and every case, however, the materials devoted to membership growth are not centrally located and displayed under a category such as "membership growth materials".

A more comprehensive list of existing products and services appears in Appendix I.

# VI. Potentially Useful New Materials that Promote Growth

The task force explored a number of proposals aimed at helping credit unions grow. Adding new members and expanding product use among current members were both recognized as desirable. Further, there seems to be general agreement that new members should be encouraged to become high-use members if not PFI (primary financial institution) members.

To best accomplish that mission we recommend consideration of an initial effort to include:

- A survey of state credit union leagues to obtain a more comprehensive picture of current growth initiatives, gauge interest in a national initative, etc.
- A national survey of the fastest growing credit unions (discounting those that grew primarily because of merger or acquisition) to identify and share their strategies for growth.
- A credit union survey of federal and state CUs to determine what concerns they have with exam practices and findings; structure to ascertain if there is a broad concern that examiners' actions curtail growth and, if so, what those actions are.
- Construction of a clearing house for information sharing perhaps a prominent area on
  its web site wherein credit unions could share ideas of what they have found that works
  to grow membership, similar to what has been done with the Hispanic Resource Center.
- Reinforce the message of NCUA's new 06-FCU-04 "Evaluation of Earnings".

Serious consideration also should be given to development a leader's discussion guide and DVD for leagues and others to use to discuss growth issues – similar to the E-SCAN materials; development of a switch kit for credit unions to use to convert consumers' choice for financial institutions; development of a rewards program for fast growing credit unions; expansion of outreach to serve young adults, emerging immigrant markets, and retiring Baby Boomers.

A comprehensive listing of potentially helpful new materials appears in Appendix II.

# Appendix I <u>Promoting Credit Union Growth</u> Existing CUNA/CSS Products and Services

CUNA/CSS currently provides a wide variety of materials that promote credit union growth. Some of those materials include:

### Project LEAP

National Brand Campaign materials (http://www.cuna.org/initiatives/cu\_brand/index.html)

#### Member education and outreach materials:

- Hispanic initiative materials
- o Youth program materials
- o Cooperative advertising, etc.
- o SEG potential member outreach kit: Your CU What's in it for You—folder and handbook
- Statement stuffers promoting CU membership (CU Membership Bill of Rights/Why You Should Belong to a CU/There's Nothing Like a CU/Why CUs are Tax Exempt)
- The Benefits of Membership issue of Home & Family Finance
- o "My CU, Where I Belong" module of Guides to Independence
- o International CU Day materials promote CU membership
- Youth Week materials promote CU membership
- YES Summit: Serving 18 to 30 year old market
- o Hispanic Outreach Quick Start Kit: A step by step guide for CUs

### • Staff education and training materials:

- Schools and Conferences (e.g., Business Development; Marketing Management; Business Lending; Sales & Service Institute; Branch Management Institute(s);)
- Webinars focused on "business development" and "sales"
- o MERIT Certificate Modules: M16, M28 & M32; STAR Certificate Module: S120
- o Online Courses: CU Sales, Cross-Selling
- Various books & book series (e.g., Business Development (3 books), and Book Series on Marketing Across the generations (4 book set); "So You Want to Open a New Branch Office" book Community Charter Book; SEG book;
- Future Forum/America's Credit Union Meeting

#### • Strategic partner products and services:

- o Accel Members Financial Counseling
- Datatrac Rate intelligence services
- Generations Gold Membership loyalty program
- Harland/Liberty Share draft/checking program
- Harland/Liberty Membership predictive modeling
- HFS Customer Relationship Management (CRM) Software & MCIF service bureau
- MoneyGram Money orders/official checks
- Travelex Prepaid cards & money transfer
- Calendars & promotional products
- Diebold ATMs, ATM advertising & coupons (RemoteLink)
- Harland/Liberty Direct marketing materials
- Harland/Liberty Statement solutions
- HFS member business lending facilitation software
- Newtek Business Solutions SBA Lending, merchant processing, tax services, outsourced bookkeeping, web site development/hosting, data storage
- IBT Retail branching solutions/Hispanic-focused branches
- Level 5 CU facility projects
- JMFA Overdraft privilege
- Pointrac/Verdi Branch/ATM site location analysis

# Appendix I (Continued) <u>Promoting Credit Union Growth</u> <u>Existing CUNA/CSS Products and Services</u>

#### • Research, Statistical and Related Materials

- Consulting services (e.g., CUNA Economists have been preaching the need to lower earnings and allow net worth to drift lower)
- Statistical reports and analytical tools such as Monthly Estimates and CUBenchmarker
- o CU 360 Rate Alert
- National survey reports such as National Member Survey, Survey of Potential Members, Fees Survey
- Credit union survey research services such as member surveys, non-member/community charter surveys, business surveys and SEG-satisfaction surveys.
- o Membership Benefits reports

# Appendix II <u>Promoting Credit Union Growth:</u> Potentially Useful New CUNA/CSS Products and Services

A variety of new products, services, and initiatives might help CUNA to promote credit union growth. Some of those materials include:

- Conduct a survey of federal and state CUs to determine what concerns they have with exam practices and findings; structure to ascertain if there is a broad concern that examiners' actions curtail growth and, if so, what those actions are. After survey results are tabulated, be prepared to talk to NCUA (leagues to state regulators) on specific negative actions identified, and ask NCUA to have regional offices write letters out to their examiners and credit unions in their regions on what actions are not to be taken by examiners (similarly to what we achieved in the early 1990's when there were problems with examiners).
- Identify and survey fast-growing credit unions to summarize and distribute best practices
- Sponsor a website where credit unions can share ideas on what they have found that works to grow membership. See Debbie Matz' PALS "Best Practices" still searchable on NCUA's website for examples of sharing – link to/from AACUL sharing site
- Have CUNA's Governmental Affairs Committee study what, if any, other (reasonable) changes should be made in the FCU Act or NCUA regulations that interfere with credit union membership outreach. One example – removal of loan rate ceilings.
- Rejuvenated/edgy branding initiative to appeal to youth (e.g., Utah "You" campaign/Oklahoma initiative)
- New award for fast growers perhaps combined with a stand-alone CU Growth Conference
- Package CUNA's suggestions on marketing ideas, concerns with examiner directives, etc. that are ways to
  attract members and put on a CD with a "Leader's Discussion" guide that can be used by leagues and
  others to build a two-hour meeting around to discuss growth issues.
- Create a board education program focused on credit union growth.
- Ask the leagues to look at state credit union law and regulations to determine what, if any, changes should be made in restrictions that unreasonably interfere with membership growth
- Explore other distribution methods for CUs to utilize, i.e., Podcasts to promote financial literacy
- Expand Pointrac offering to include member demographic analysis
- Language Translation Services
- Work with Harland & Accel to promote a bundled package of checking services & members financial counseling
- Expanding Advisory Services to include things such as Gen Y consulting services, emerging markets, and new charter consulting.
- Tap CUNA Marketing and Business Development Council for their advice/best practices.
- Survey of fast-growing CUs
- Develop market share reporting system
- More cooperative initiatives
- Transferable memberships (e.g. Filene I3 initiative)
- Anytime Adviser module on CU differences/benefits/membership
- A national Juntos Avanzamos program (in development)
- A PFI Kit: Benefits of membership...key services and cost savings when using CUs...